BOOK REVIEWS AND NOTICES

The Industrial System. An Inquiry into Earned and Unearned Incomes. By J. A. Hobson. New York: Longmans, Green & Co., 1909. Pp. xx+328.

A twofold purpose is discernible in this latest book by Mr. Hobson. The first purpose is purely scientific: "to construct an image of the actual, concrete system of industry" (p. v.) so as to throw light upon distribution by a "study of the various sorts of acts of distribution." The second purpose, not explicitly stated, but dominating the book as a whole, is to furnish a plausible logical basis for the peculiar radical movement with which Mr. Hobson is identified. The former purpose carries Mr. Hobson through the first three chapters of the book; its definitive result is the construction of a static scheme of industrial society, essentially similar to Clark's group and sub-group system, but executed with greater elaboration. The remainder of the book subserves the propagandist purpose; it contains, however, a number of chapters that are hardly relevant to the main issue, such as "The Size of Businesses," a judicious statement of the conditions under which large scale industry has proved profitable; "Trusts and Monopolies," a somewhat commonplace treatment of a hackneyed subject; "Insurance," a brief description of the benefits of insurance and an inconclusive weighing of the pros and cons of governmental insurance; and "Money and Finance," a suggestive, but somewhat loosely reasoned chapter, as the following quotation will suggest: "A bill discount means a bet on the part of the banker or broker that the goods in respect of which a bill is drawn and discounted will sell, and the bill be met at maturity" (p. 256).

The conventional shares in distribution yield their place of importance, in Hobson's treatment, to "maintenance (costs of subsistence)," "productive surplus (costs of growth)," and "unproductive surplus (unearned increments)" (p. 80). Whatever may be necessary to insure the existence and evoke the services of an agent of production falls under the head of "maintenance." This includes the requisites of physical existence, together with the customary allowance of comforts and luxuries, for the laborer and his family; profits sufficient to make enterprise worth while; replacement charges on capital, together with the minimum interest required to prevent the owner of capital from trenching upon it. The "productive surplus" is composed of additional payments needed to evoke an increased quantity or a higher quality of services of labor, entrepreneurship or capital. The "unproductive surplus" consists of incomes which do not serve as an inducement to quantitative increase of production or qualitative improvement. It includes the whole of land rent, much of entrepreneur's profits, a part of interest, and even some small part of the wages of labor. The unproductive surplus is the source of waste, idleness, and disorder; "the whole problem of industrial reform may be conceived in terms of a truly economical disposal of this surplus" (p. 78).

The labor movement finds its justification in the possibility it offers of

converting a part of the unproductive surplus into wages of efficiency (pp. 201 ff.). But this method is clumsy and ineffective. The only satisfactory way of restoring health to the body politic is to appropriate the unproductive surplus to the state through taxation. Ultimately, Hobson believes, the surplus must, in any case, bear the burden of taxation. Much needless hardship and industrial disturbance results from taxes imposed, in the first instance, upon incomes necessary for maintenance. The statesman's duty is therefore to devise schemes of taxation that will reach the surplus directly.

It is with a feeling akin to disappointment that the reader acquaints himself with Hobson's practical projects for tax reform. In the first place Hobson proposes to tax away future increase in land values—a project defended on grounds that are quite independent of his theoretical system. Secondly, it is proposed to make a graduated income tax the chief reliance of the revenue system. How can it be said that the size of a personal funded income indicates whether the capital from which it is derived is earning interest in excess of "maintenance"? No practical administration of an income tax can distinguish, even roughly, between the "earned" and "unearned" elements in personal income, if we accept Hobson's definition of these terms. There appears to be no justification for sparing the existing rent of land, if it is indeed nothing but a source of waste and disorder. One is almost forced to the conclusion that Mr. Hobson, in order to give his work an immediate practical significance, unconsciously substituted the taxation projects now under discussion in Great Britain for those that might logically be deduced from his theoretical treatment of income.

Few economists would deny that a rough distinction may be made between income that is necessary to evoke economic services and income that does not stimulate production in the least. Whether this distinction can be drawn with sufficient definiteness to be of any practical use is another matter. Certainly it will appear to most students of taxation that the unproductive surplus will be found, if anywhere, in connection with monopolies of all kinds, and that only through a combination of direct taxes upon monopolies and indirect taxes upon luxuries can this surplus be reached.

A careful examination of Mr. Hobson's theory will disclose, under a seeming definiteness of outline, a surprising number of hazy conceptions. According to his argument the "maintenance" incomes of labor, capital, and enterprise are fixed by the natural laws of competition; competition can afford no rule for the distribution of income in excess of maintenance. Under absolutely free competition, wages, interest, and profits would be at a minimum; if the social product exceeds the aggregate of these minimum incomes, there will be an ownerless surplus to go to waste (p. 130). Here Hobson conceives of a competition which can reduce incomes but cannot increase them; a competition of sellers of productive energy with no competition of buyers. But if competition is conceived in this way, it can afford no rule even for the distribution of maintenance charges. "Pull" becomes necessary even for the securing of the minimum of subsistence—as, indeed, is often the case in real life.

There would be no surplus, we are told, if all the various sorts and qualities of land, labor, capital, and managing ability were present in equal abundance (p. 130). How, one may ask, can it be determined whether labor is as abun-

dant as capital, except by reference to the prices of these factors—prices in which the "surplus" would be likely to appear? Throughout the book, it may be remarked, references are made to the abundance or scarcity of one factor relatively to others, although the nature of the argument precludes a quantitative comparison of the factors.

Hobson's adoption of a theory of distribution based on minimum charges and forced gains makes it necessary for him to renew his attack on the marginal productivity theory (pp. 106 ff.). In the first place, it is urged, the separate productivity of a unit of labor or of capital is not determinable. If this is true, what becomes of Hobson's own reduction of labor power, capital power, and land power to homogeneous units of efficiency (p. 61)? It may be noted that the method of reasoning that Hobson so severely criticizes is employed by him in defining the product of organization. "The difference between the sum of the little products that would issue if the units [of labor, capital, and land] worked singly by and for themselves . . . . and that which accrues from their co-operative working under skilled guidance, is the product of organization and the economic fund out of which profit is paid" (p. 117).

It is almost impossible for anyone who is familiar with Hobson's usual keenness of insight in matters of theory to escape the conclusion that irritation with the assumed ethical implications of the productivity theory of distribution has impelled him wilfully to misinterpret it. On p. 112 the assertion is made that the marginal productivity theory is based on "the assumption that we may profitably treat the industrial system as composed of factors of production, infinite in quantity and absolutely fluid and competitive in character, afterward making some allowance for their not being what we have supposed them to be." After reading this remark, one is not surprised to find that Hobson rests his criticism of the theory chiefly upon considerations that are wholly irrelevant to the issue (p. 110).

A striking characteristic of the book is the supreme importance assigned to economic considerations. Income should be used in such a way as to maintain or increase economic efficiency. If it does not do this, it is unproductive surplus, which ought to be taken by the state. Moreover, it is "unearned" income—a somewhat original use of the term, since it refers not to the way one makes his income, but to the way he spends it. In only one passage in the whole book (p. 236) is it recognized that an individual has a right to use his income to promote other ends than industrial efficiency.

His views of the forces making for economic progress similarly confine themselves to the field of price and income changes. If the output of an industry is to be increased, or if qualities are to be improved, all that is required is more pay. Whatever society wants, in the way of excellence, it may have, if it will pay for it. "Fine and reliable work cannot be got out of workers living upon a bare subsistence wage" (p. 68). It would be pleasant to believe that this is true; that an exquisite piece of lace, for example, offers *prima facie* evidence that its maker was well paid. The facts of life, however, do not justify us in ascribing to increase in wages an exclusive or perhaps even a predominant rôle in raising the standards of workmanship. The finest work of the world has been done by persons who gave themselves freely to their work

with little regard to the pay they were to receive. It is not to mere increase of wages that we must look for the future renascence of good workmanship.

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Modern Accounting. By HENRY RAND HATFIELD. New York: Appleton & Co., 1909. 8vo, pp. xiv+367. $1.75.

Two main motives may influence the writer of a book on modern accounts—the desire to show the problems of the accountant, and the desire to contribute to the solution of those problems. Professor Hatfield, in his preface, says that "the comparative study of accounting practice will, perhaps, be a greater service to accounting science than a more dogmatic treatise." On this principle Mr. Hatfield has gathered and presented a vast amount of information concerning accounting practice, legal decisions, and expert opinion. The result is an extremely valuable and interesting treatise, and yet not quite what one is led to expect from the words of the preface. The book is, after all, a good deal dogmatic; though the dogma is not necessarily Mr. Hatfield's own. Indeed, the chief unfavorable comment to be made on the book is the fact that the author has given so much opinion of other people and so little of his own—especially when the opinions of others are so often contradictory one of another. He has raised many problems; and most of them are still problems when he leaves them. Much may be said of the value of this sort of accomplishment. Indeed, all students of accounting must be grateful to Mr. Hatfield for bringing together this information in orderly form. It is probable, however, that the thing needed in the literature of accounting just now is more boldness to argue distinctly for this or that principle. Mr. Hatfield's own opinion is usually implied in his comments on the other opinions expressed, and his opinion seems always sane, but except for the close reader it is likely to be more or less swamped in the mass of confirmatory and contradictory opinion.

Indeed, a general comment to be made on the whole book is that it is academic. It begins with elaborate equations to explain the theory of double-entry, and these are followed by minus and plus statements and classifications that savor of the old-fashioned schoolroom. As soon as accounting problems are raised, legal decisions (seventy distinct cases are cited in the course of the book) and accountants' opinions present almost all imaginable solutions. This is interesting to the reader and helpful to the lawyer preparing a brief, but is hardly convincing to the layman who needs sound principles. What the progress of accounting requires is a threshing-out of the truth of business transactions; and emphasis on the mere balancing of contrary opinions, judicial or otherwise, tends to obscure truth. As a matter of fact, the courts cannot be expected to give sound decisions on accounting questions until the new facts of modern business have been recognized by accountants themselves. The accountants should expect to lead, not follow the courts—that is, they should determine the truth independently of law; and then the judges may wisely determine the law out of the truth. Mr. Hatfield's own point of view is uncompromisingly favorable to making accounts show the exact truth, but he is not eager to argue for his own beliefs as to just what is the truth. Often when